

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-05 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 PA-02 PRS-01 L-03 H-02 /115 W
-----114626 211153Z /10

R 210750Z DEC 77
FM AMEMBASSY ANKARA
TO SECSTATE WASHDC 9928
INFO AMCONSUL ADANA POUCH
AMEMBASSY ATHENS
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMCONSUL ISTANBUL
AMCONSUL IZMIR
AMEMBASSY NICOSIA
AMEMBASSY PARIS
CINCUSAFE
USCINCEUR
USDOCOLANDSOUTHEAST IZMIR
USDOCOSOUTH NAPLES
USMISSION GENEVA
USMISSION USNATO

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USEEC

USOECD

E.O. 11652: N/A
TAGS: EFIN, ECON, IMF, TU
SUBJ: CENTRAL BANK OFFICIAL PROVIDES FRANK DIAGNOSIS OF TURKEY'S
ECONOMIC PROBLEMS

1. IN SURPRISINGLY FRANK TALK BEFORE EMBASSY-ORGANIZED
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LUNCHEON OF TURKISH-AMERICAN BUSINESS GROUP DECEMBER 16,
YAVUZ CANEVI, DIRECTOR GENERAL OF FOREIGN EXCHANGE,
TURKISH CENTRAL BANK, DIAGNOSED THE CAUSES OF
TURKISH ECONOMIC DIFFICULTIES AND PRESCRIBED THE WAY
OUT. CANEVI IS A MEMBER OF THE THREE-MAN TURKISH TEAM
THAT HAS BEEN MEETING WITH THE IMF. EMBASSY REGARDS HIS
APPRAISAL AS INDICATION OF HEALTHY IMPACT OF IMF DISCUSSIONS

ON THINKING WITHIN TURKISH GOVERNMENT.

2. CANEVI OPEND BY CITING FIGURES THAT PROVIDE A MEASURE OF TURKEY'S WORSENING PROBLEMS THIS YEAR:

	1975	1976	1977
	(US \$ BILLIONS)		
TRADE DEFICIT	3.3	3.2	3.7
CURRENT ACCOUNT DEFICIT	1.9	2.3	2.9
OVERALL DEFICIT	1.4	1.8	2.4

3. SOME OF THE CAUSES OF THIS DIFFICUTL SITUATION ARE EXTERNAL, CANEVI SAID. TURKEY WAS UNABLE TO ADJUST AS SOME OTHER COUNTRIES WERE TO RISE IN OIL PRICES THAT BEGAIN IN 1973. TERMS OF TRADE WORKED AGAINST TURKEY. EUROPEAN COMMUNITY TOOK MEASURES TO LIMIT IMPORTS OF TURKEY'S COTTON YARN AND RESTRICTED OTHER TURKISH EXPORT OPPORTUNITIES. FINALLY THE US ARMS EMBARGO, WHILE NOT A MAJOR CAUSE OF TURKEY'S ECONOMIC PROBLEMS, CONTRIBUTED TO THEM IN A WAY THAT WAS NOT MINOR.

4. BUT CANEVI FOUND THE PRINCIPAL CAUSES OF ITS ECONOMIC DIFFICUTLIES TO LIE WITH TURKEY ITSELF:

A. IN 1970S, GOVERNMENT MOVED AWAY FROM PLANNING APPROACH TO ECONOMIC PROBLEMS. STATE PLANNING ORGANIZATION, WHICH HAD BEEN EFFICIENT PLANNING BODY IN 1960'S, UNCLASSIFIED

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WAS SOMEHOW LEFT OUT OF ECONOMIC PROBLEMS OF 1970'S. AS A RESULT, DEMAND PRESSURE GREW ON THE CONOMY. EXCESSIVE DEMAND HAS BEEN THE MAIN ECONOMIC PROBLEM OF RECTN YEARS.

B. PRODUCTION BOTTLENECKS, CAUSED, FOR EXAMPLE, BY ASHORTAGE OF ENERGY, INREASED UNEMPLOYMENT AND CONTRIBUTED TO THE FOREIGN EXCHANGE PROBLEMS.

C. BUT THE HEART OF TURKEY'S ECONOMIC DIFFICULTIES LIES IN POLITICAL INSTABILITY, CANEVI SAID. THIS HAS BEEN THE CAUSE OF RUMORS AND EXPECTATIONS THAT HAVE LED TO POSTPONEMENT OF BUSINESS DIECISIONS. EXPECTATIONS OF PRICE INCREASES, OF INCREASING INFLATION, OF TAX CHANGES, OF DEVALUATION ALL DALAY DECISIONS. TURKISH ECONOMY CANNOT TOLERATE THESE EXPECATATIONS. ONLY WAY THEY CAN BE OVERCOME IS THROUGH FIRM GOVERNMENTAL ECONOMIC AND FISCAL POLICIES. UNTIL THERE IS POLITICAL STABILITY, HE CONCLUDED, THERE CAN BE NO ECONOMIC STABILITY.

5. THERE IS ONLY ONE WAY OUT OF TURKEY'S PRESENT PROBLEMS, CANEVI BELIEVED. THAT IS TO ACCEPT THAT THE COUNTRY WILL HAVE TO REDUCE ITS GROWTH RATE AS LONG AS

IT CANNOT OBTAIN THE FOREIGN FINANCING TO SUSTAIN A
HIGHER RATE. TO REDUCE THE GROWTH RATE, TURKEY MUST
LIMIT DEMAND. THE COUNTRY HAS BEEN LIVING IN AN
ATMOSPHERE WHERE THERE WAS NEVER ANY SERIOUS THOUGHT
GIVEN TO WHAT IT WAS EARNING AND WHAT IT WAS SPENDING.
IF THE GOVERNMENT NOW SPELS OUT THIS PROBLEM, CANEVI
WAS CONFIDENT THAT PEOPLE WOULD ACCEPT THE NEED FOR
SACRIFICE. CANEVI THOUGHT THAT THE GOVERNMENT HAD MADE REAL
PROGRESS IN ITS APPRECIATION OF THE NEED TO CURB DEMAND THROUGH
ITS DISCUSSIONS WITH THE IMF. TURKEY, HE ADDED, IS
RUNNING AGAINST TIME AT THIS POINT: " WE HAVE TO
EXPLAIN TO EACH OTHER THAT WE HAVE TO ACT NOW."

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6. IN THE QUESTION PERIOD THAT FOLLOWED THE TALK, CANEVI
MADE THE FOLLOWING ADDITIONAL OBSERVATIONS:

A. INDEPENDENCE OF CENTRAL BANK.

BY LAW THE CENTRAL BANK IS INDEPENDENT OF THE GOVERNMENT.
HOWEVER, DEGREE OF ITS INDEPENDENCE IS RELATED TO ECONOMIC
SITUATION OF COUNTRY AND PERSONALITY OF BANK ADMINISTRATORS.
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THE CURRENT ADMINISTRATORS, HE SAID STOUTLY, ARE PREPARED
TO STAND ON THIS LEGAL BASIS FOR INDEPENDENCE. (FYI: A
FREQUENT CRITICISM OF THE CENTRAL BANK IS PRECISELY
THAT IS NOT INDEPENDENT OF THE GOVERNMENT. IT HAS
CERTAINLY NOT BEEN NOTED FOR SPEAKING OUT PUBLICLY
AGAINST GOVERNMENT POLICIES. END FYI)
B. FOREIGN BORROWING. TURKEY WILL HAVE TO ACCEPT
FACT THAT FOR NEXT TWO TO THREE YEARS IT WILL HAVE A
LIMITED CAPACITY TO BORROW ABROAD.
C. IMPORT-SUBSTITUTION POLICY. STRUCTURE OF TURKISH
ECONOMY HAS BEEN SHAPED BY IMPORT-SUBSTITUTION POLICY.
TURKEY IS IMPORTING FOR DOMESTIC PRODUCTION OF CONSUMPTION
GOODS THAT IT COULD DO WITHOUT FOR ANOTHER FIVE OR
TEN YEARS. IT IS MISLEADING TO READ THAT SOMETHING LIKE 43 PER-
CENT OF TURKEY'S IMPORTS ARE IN THE FORM OF INVESTMENT GOODS,
50 PERCENT ARE RAW MATERIALS, AND ONLY 4 PERCENT ARE FOR
CONSUMPTION. THE RAW MATERIALS AND INVESTMENT GOODS
IMPORTED ARE LARGELY FOR PRODUCTION OF CONSUMER GOODS.
TURKEY HAS BEEN IMPLEMENTING A WRONG ASSEMBLY-BASED
IMPORT-SUBSTITUTION POLICY WHICH EVERY DAY IS INCREASING
ITS IMPORTS NEEDS. THIS IS THE FAULT OF THE TURKS
THEMSELVES; THEY CAN'T BLAME ANYONE ELSE, CANEVI
SAID.

D. TURKEY'S FOREIGN FINANCING REQUIREMENTS.
TURKEY OWES BETWEEN \$1.2-1.7 BILLION FOR
IMPORTS MADE ON CASH-AGAINST-GOODS BASIS. GOVERNMENT
IS PLANNING TO CLEAR THIS FOREIGN EXCHANGE LIABILITY
AS SOON AS IT HAS RAISED CREDITS FROM INTERNATIONAL
FINANCIAL CIRCLES. AFTER THAT IT WOULD STILL NEED AN
ADDITIONAL \$1 BILLION TO RUN THE ECONOMY IN 1978; A
BASIC DEFICIT OF ABOUT \$700 MILLION PROJECTED FOR 1978
HAS TO BE FINANCED. TURKEY THEREFORE NEEDS WELL OVER \$2 BILLION
FROM OFFICIAL AND UNOFFICIAL SOURCES TO GO AHEAD WITH
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1978 ANNUAL PROGRAM AND TO KEEP ITS FACTORIES GOING.
E. DEVALUATION. CENTRAL BANK IS IN FAVOR OF POLICY
OF REALISTIC EXCHANGE RATES FOR TURKISH LIRA. CANEVI IMPLIED

THAT IF IT WERE UP TO THE BANK ALONE, TURKEY WOULD NOT HESITATE TO DEVALUE.

F. NEED FOR FIRM MANAGEMENT POLICY. WELL DESIGNED MANAGEMENT POLICY IS BEST WAY TO CURB DEMAND. CANEVI SAID THAT HE WAS NOT IN FAVOR OF IMPORT CONTROLS; THEY DO NOT WORK. IT IS MORE IMPORTANT TO CONTROL DEMAND THROUGH TAXATION, INCOMES POLICY, I.E. ON A MACRO-ECONOMIC BASIS.

G. EXPORT PROMOTION. THERE HAS BEEN NO SERIOUS EXPORT PROMOTION PROGRAM IN TURKEY SO FAR. THE TIME HAS COME TO SELL OTHER COMMODITIES BESIDES THE FOUR OR FIVE STANDARD TURKISH EXPORT ITEMS. THIS MEANS THAT THERE HAS TO BE A REALISTIC FOREIGN EXCHANGE POLICY. FOREIGN EXCHANGE ADJUSTMENTS SHOULD NOT BE MADE FOR POLITICAL REASONS. EXPORTERS MUST BE ABLE TO PREDICT THE FUTURE IN ORDER TO SELL. TURKEY NEEDS TO STUDY EXPORT PROMOTION. THERE ARE EXPERIENCES OF COUNTRIES ALL OVER THE WORLD FOR IT TO COPY; KOREA, FOR EXAMPLE, IS EXPLOITING TRADE OPPORTUNITIES IN THE MIDDLE EAST WHILE TURKEY IS NOT. GOVERNMENT MUST CONSIDER HOW TO MAKE IT MORE PROFITABLE FOR TURKS TO EXPORT.

H. REPAYMENT OF OVERDUE DEBTS. CANEVI SAID THAT PRIORITY LISTS, DRAWN UP ON THE BASIS OF THE NEEDS OF THE ECONOMY, WOULD BE ESTABLISHED IN 1978 FOR REPAYMENT OF OVERDUE DEBTS. ON THIS POINT, CANEVI SAID THAT \$1.2 BILLION IN LETTERS OF CREDIT WERE NOW AWAITING PAYMENT IN THE CENTRAL BANK. HIS STATEMENT SUGGESTS THAT DEBTS WILL NOT REPEAT NOT BE PAID ON A CHRONOLOGICAL BASIS BY DATE DUE, EARLIEST FIRST.

I. NATIONAL BUDGET. INCREASE IN PRICES OF GOODS AND SERVICES OF STATE ECONOMIC ENTERPRISES LAST SEPTEMBER REDUCED THEIR DEFICIT, WHICH IS FINANCED FROM THE NATIONAL BUDGET, BY TL 40 BILLION. CANEVI SAID THAT
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SEPTEMBER MOVE WAS EQUIVALENT TO A 20-PERCENT INCREASE IN BUDGET REVENUES. THIS SAVING BROUGHT A BIG IMPROVEMENT IN THE BUDGETARY SITUATION. NEVERTHELESS THE GOVERNMENT IS STILL HAVING BUDGETARY PROBLEMS. MEASURES ALREADY TAKEN ARE INSUFFICIENT. NEXT YEAR NEW DRASTIC MEASURES WILL HAVE TO BE TAKEN TO MAKE SEE'S MORE VIABLE TO RAISE TAXES AND OTHERWISE INCREASE REVENUES, AND TO REDUCE GOVERNMENT SPENDING. THESE ARE IMPLICIT IN THE FY 1978 BUDGET PROPOSAL TO PARLIAMENT.
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